Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Text

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PAGE 01 LONDON 12291 202235Z

12
ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

AGR-20 FEA-02 DRC-01 /176 W
---------- 095458
R 201811Z SEP 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 4110
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC

UNCLAS LONDON 12291

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING SEPTEMBER 20

BEGIN SUMMARY: IN GENERAL, THE UK ECONOMY CONTINUED ITS PRESENT TRENDS OF INCREASING UNEMPLOYMENT AND RISING IN-FLATION DURING THE WEEK OF SEPTEMBER 16-20. HOWEVER, CER-TAIN ANOMALOUS FIGURES MAY PROVE HELPFUL TO THE GOVERNMENT
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PAGE 02 LONDON 12291 202235Z

IN ITS BID TO GAIN REELECTION ON OCTOBER 10. AMONG THESE

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

ARE A LEVELING OFF IN THE RETAIL PRICE INDEX (RPI) IN AUGUST AND A REDUCTION IN THE RISE OF UNEMPLOYMENT. HOWEVER, FIGURES FOR WAGE RATE INCREASES AND WHOLESALE PRICES (REPORTED LAST WEEK IN LONDON 11903) GIVE LITTLE HOPE THAT THE RPI STABILITY IS MORE THAN TEMPORARY, RESULTING MAINLY FROM THE 2 PERCENTAGE POINT VAT REDUCTION IN THE JULY 22 MINI-BUDGET. ELEMENTS OF DEMAND SHOW LITTLE BUOYANCY AND INDUSTRIAL PRODUCTION IS CLEARLY LEVELING OFF; IT HAS NOT YET REGAINED THE LEVEL OF THE 3RD QUARTER OF 1973, BEFORE INDUSTRIAL CRISES. STERLINE SHOWED A SIGN OF SLIGHT STRENGTHENING DURING THE EARLY PART OF THE WEEK, BUT CLOSED THURSDAY (SEPT. 19) AT $2.3155, ONLY 5 POINTS ABOVE LAST THURSDAY'S CLOSE. THE TRADE-WEIGHTED DEVALUATION ON THURSDAY (SEPT. 19) WAS MEASURED AT 18.2 PERCENT, REPRESENTING A FURTHER INCREASE OF 0.3 PERCENTAGE POINTS OVER THE WEEK. GOLD PRICES FELL BY OVER $9 THROUGH TUWSDAY (SEPT. 17), BUT CLOSED THURSDAY (SEPT. 19) AT $149.25, DOWN $5.25 ON LAST THURSDAY'S CLOSE. END SUMMARY.

1. UK DOMESTIC ECONOMY.

1. THE RETAIL PRICE INDEX FOR AUGUST, ANNOUNCED FRIDAY, SEPT. 20, INCREASED FROM 109.7 TO 109.8 (JANUARY 1974 EQUALS 100) THE LOWEST MONTHLY RISE IN 3 YEARS. THIS RESULTS PRIMARILY FROM THE 2 PERCENTAGE POINT REDUCTION IN THE VAT, IMPLEMENTED AT THE END OF JULY.

2. THE INDEX OF WAGE RATES JUMPED 4.1 PERCENT IN AUGUST, AN INCREASE OF 19.7 PERCENT OVER THE PAST YEAR. AVERAGE EARNINGS IN JULY ROSE 2.9 PERCENT AND HAVE INCREASED 13.1 PERCENT SINCE LAST NOVEMBER WHEN STAGE 3 OF THE WAGE/PRICE PROGRAM BEGAN (THE WAGE PROGRAM WAS ABOLISHED JULY 25).

3. INDUSTRIAL PRODUCTION REMAINED RELATIVELY LEVEL; THE OVERALL INDEX ROSE FROM 109.3 TO 109.9 WHILE THE MANUFACTURING INDEX STAYED ALMOST STABLE AT 110.9 (110.8 LAST MONTH).

4. ENEMPLOYMENT INCREASES LEVELED OFF IN AUGUST. THERE WAS AN ABSOLUTE DROP IN THE NUMBER OF ENEMPLOYED BUT ON A UNCLASSIFIED

SEASONABLY ADJUSTED BASIS THERE WAS A RISE OF ABOUT 6,000 IN THE UK. THIS IS BELOW THE MONTHLY AVERAGE INCREASE (16,800) IN THE PREVIOUS 3 MONTHS.

5. BANK OF ENGLAND QUARTERLY BULLETIN REPORTS MONEY SUPPLY ON NARROW BASIS (MI) ROSE BY 3.3 PERCENT IN SECOND QUARTER OF 1974 WHILE BY BROAD MEASURE (M3), MONEY SUPPLY INCREASED BY 1.8 PERCENT. ALL OF THE INCREASE IN LATTER CAME

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

FROM INCREASE IN BANK ADVANCES TO PRIVATE SECTOR (ABOUT 1.7 BILLION POUNDS) WHICH PROBABLY REFLECTS BEGINNING OF INDUSTRY LIQUIDITY SQUEEZE.

11. INTERNATIONAL

6. STERLING WAS AGAIN VERY STABLE DURING THE WEEK, WITH THE DOLLAR/POUND RATE VARYING FROM $2.3125 ON FRIDAY (SEP. 13) TO $2.3170 ON TUESDAY (SEPT. 17) AND CLOSING AT $2.3155 THURSDAY (SEPT. 19). THERE WAS LITTLE NOTICEABLE EFFECT ON THE RATE AS A RESULT OF THE IMPROVED TRADE FIGURES ANNOUNCED LAST WEEK. THE VOLUME OF FOREIGN EXCHANGE ACTIVITY IS ESTIMATED TO BE ABOUT ONE-HALF OF THE PRE-HERSTATT LEVEL, WITH THE GENERAL FEELING THAT NEARLY ALL CURRENT TRANSACTIONS ARE OF A COMMERCIAL NATURE. THEM LONDON FOREIGN EXCHANGE MARKET IS CHARACTERIZED IN THE CURRENT PERIOD AS CALM YET CAUTIOUS. ON A TRADE-WEIGHTED BASIS, THE POUND'S DEVALUATION (SINCE SMITHSONIAN) WAS 18.2 PERCENT ON THURSDAY (SEPT. 19), REFLECTING A FURTHER DEPRECIATION OF 0.3 PERCENTAGE POINTS OVER THE WEEK. THE PRICE OF GOLD FELL FROM LAST THURSDAY'S (SEPT. 12) CLOSING OF $154.50 TO $145.25 ON TUESDAY (SEPT. 17) AND CLOSED THURSDAY (SEPT. 19) AT $149.25, OFF $5.25 FROM LAST THURSDAY'S CLOSE.

7. THE FORWARD DISCOUNT ON STERLING, FOLLOWING THE SPOT RATE, WIDENED THROUGH TUESDAY (SEPT. 16) WITH THE ONE-MONTH RATE FALLING SLIGHTLY AND THE THREE AND SIX-MONTH RATES HOLDING FAIRLY STEADY ON WEDNESDAY AND THURSDAY.

	9/12	9/19	CHANGE
1 MONTH	0.17-1/2	0.27	UP 0.09-1/2

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3 MONTHS	1.11	1.45	UP 0.34
6 MONTHS	3.07-1/2	3.47	UP 0.39-1/2

8. LOCAL AUTHORITY DEPOSITS EXHIBITED LITTLE MOVEMENTDURINT THE WEEK.

	9/12	9/19	CHANGE
1 MONTH	10-11/16	10-7/8	UP 3/16
3 MONTHS	12-1/16	11-7/8	DOWN 3/16
6 MONTHS	12-12/16	13	UP 1/16

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

9. EURODOLLAR RATES CONTINUING THE PREVIOUS TWO WEEKS'S
TRAND, MOVED DOWNWARD DURING THE WEEK.

	9/12	9/19	CHANGE
1 MONTH	11-11/16	11-7/16	DOWN 1/4
3 MONTHS	12-3/8	12	DOWN 3/8
6 MONTHS	13	12-7/16	DOWN 5/16

1. THE MINIMUM LENDING RATE FELL BY 1/4 OF A POINT TO
11-1/2 PERCENT. THIS IS THE FIRST CHANGE SINCE MAY 24,
1974 WHEN THE RATE FELL 12/PERCENT FROM 12 PERCENT TO
11-3/4 PERCENT

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INFLATION, UNEMPLOYMENT, ECONOMIC TRENDS, STERLING (CURRENCY), FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON12291
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740265-0991
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740928/aaaaaxlk.tel
Line Count: 187
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 JUN 2002 by maustmc>; APPROVED <03 JUL 2002 by golinofr>
Review Markings:

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US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING SEPTEMBER 20 BEGIN SUMMARY: IN GENERAL, THE UK ECONOMY CONTINUED ITS
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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